

CITY OF POLK CITY, IOWA  
INDEPENDENT AUDITORS' REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTAL INFORMATION  
AND FINDINGS

JUNE 30, 2009

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City of Polk City, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gary Heuertz	Mayor	January, 2010
Tim Rhoades	Mayor Pro Tem	January, 2012
Dan Lane	Council Member	January, 2010
Robert Mordini	Council Member	January, 2010
David Dvorak	Council Member	January, 2012
Ronald Anderson	Council Member	January, 2012
Gary Mahannah	City Administrator	Indefinite
Colin Adams	Finance Officer	Indefinite
Sharon Nickles	Clerk/Treasurer	Indefinite
Brick Gentry, et al, P.C.	City Attorney	Indefinite

# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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IOWA SOCIETY OF  
CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of the City Council  
City of Polk City

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa, as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each major fund of the City of Polk City as of June 30, 2009, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also included our reports on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the four years ended June 30, 2008 (none of which is presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

July 31, 2009

*Pollard and Company P.C.*

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

Polk City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2009. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

### **2009 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental activities decreased by 3.14%, or \$110,291 from fiscal 2008 to fiscal 2009. Property and Tax Incremental Financing Tax receipts increased by \$69,934.
- Disbursements decreased 4.486%, or \$157,776, in fiscal 2009 from fiscal 2008. Public safety disbursements decreased \$371,479 and capital projects disbursements decreased by \$326,895.
- The City's total cash basis net assets increased 8.20%, or \$316,296, from June 30, 2008 to June 30, 2009. Of this amount, the assets of the governmental activities decreased \$185,130; the assets of the business type activities increased by \$501,426.

### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements and other information as follows: Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the non-major governmental funds.

### **Basis of Accounting**

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

## REPORTING THE CITY'S FINANCIAL ACTIVITIES

### *Government-wide Financial Statement*

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

### *Fund Financial Statements*

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer funds..

The required financial statements for proprietary funds include a statement of cash receipts, disbursements and changes in cash balances.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$2,081,588 to \$1,896,458. The analysis that follows focuses on the changes in cash balances for governmental activities.

### Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Receipts		
Program receipts:		
Charges for service	343,798	351,199
Operating grants, contributions and restricted interest	280,321	355,753
Capital Grants & Contributions		2,422
General receipts:		
Property tax	716,363	672,673
Tax Increment Financing	165,570	139,326
Local option sales tax	1,839,576	1,837,249
Unrestricted investment earnings	32,067	100,727
Miscellaneous	18,518	47,155
 Total receipts	 <u>3,396,213</u>	 <u>3,506,504</u>
 Disbursements:		
Public Safety	825,688	1,197,167
Public Works	611,167	311,412
Health and Social Services		7,500
Culture and Recreation	340,042	352,076
Community and Economic Development	154,600	22,500
General Government	572,733	444,456
Capital Projects	857,113	1,184,008
 Total disbursements	 <u>3,361,343</u>	 <u>3,519,119</u>
 Increase (Decrease) in cash basis net assets	 34,870	 (12,615)
 Transfers (net)	 (250,000)	 (500,000)
Sale of Capital Assets	30,000	
 Cash basis net assets beginning of year	 <u>2,081,588</u>	 <u>2,594,203</u>
 Cash basis net assets end of year	 <u>1,896,458</u>	 <u>2,081,588</u>



**RECEIPTS BY SOURCE**

Unrestricted investment earnings	0.94%
Miscellaneous	0.55%
Operating grants, contributions and restricted interest	8.25%
Tax increment financing	4.88%
Charges for service	10.12%
Property tax	21.09%
Local Option Sales Tax	54.17%
Inter Fund Loans & Transfers	0.00%
Capital Grants & Contributions	0.00%

**DISBURSEMENTS BY FUNCTION**

Community and Econ...Development	4.28%
Health & Social Services	0.00%
Culture and Recreation	9.42%
General government	15.86%
Public Works	16.92%
Public Safety	22.86%
Capital Projects	23.74%
Inter Fund Loans & Transfers	6.92%

The City's total receipts for governmental activities decreased by 3.145% or \$110,291. The total cost of all programs and services decreased by \$157,776 or 4.48% which included the continuation of a capital projects program. The decrease in receipts was primarily the result of the reduction of interest rates as compared to 2008.

The cost of all governmental activities this year was \$3,361,343 compared to \$3,519,119 last year. However, as shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was only \$2,737,224, because some of the cost was paid by those directly benefited from the programs (\$624,119). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, decreased in 2008 from \$706,952 to \$624,119. The City paid for the remaining "public benefit" portion of governmental activities with \$881,933 in property taxes (some of which could only be used for certain programs) local option sales tax and with other receipts, such as interest and miscellaneous income.

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**Changes in Cash Basis Net Assets of Business Type Activities**


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	<u>Year ended June 30</u>	
	<u>2009</u>	<u>2008</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$391,810	\$387,563
Sewer	\$312,494	\$287,845
General receipts:		
Unrestricted interest on investments	\$ 52,108	\$49,731
Intra Fund Loan		
Transfers In	\$250,000	\$500,000
Total receipts	<u>\$1,006,412</u>	<u>\$1,225,139</u>
Disbursements:		
Water	\$269,743	\$275,550
Sewer	\$235,243	\$170,230
Inter Fund Loans		
Total disbursements	<u>\$504,986</u>	<u>\$445,780</u>
Increase in cash balance	\$501,426	\$779,359
Cash basis net assets beginning of year	<u>\$1,774,502</u>	<u>\$995,143</u>
Cash basis net assets end of year	<u>\$2,275,928</u>	<u>\$1,774,502</u>

Total business type activities receipts for the fiscal year were \$1,006,412 compared to \$1,225,139 last year. This decrease was due primarily to amounts transferred via inter-fund loans to provide for future major capital expenditure projects. Total disbursements for the year increased by 13.28% to a total of \$504,986.

#### **INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS**

As Polk City completed the year, its governmental funds reported a combined fund balance of \$1,896,458 a decrease of \$185,130. Of the decrease, all of it is attributable to an increase in transfers to fund future Water/Sewer Capital Projects..

- The General Fund cash balance increased by \$109,688 from the prior year total of \$1,217,273. The increase is attributable to a decrease in both transfers out and capital project expenditure.
- The Capital Projects Fund was established in year ended June 2004 to isolate from the General Fund items of a capital nature. At the end of the year the balance of this fund was \$82,198. This surplus will be used, with the addition of additional inter fund transfers, to fund the 2009/2010 Capital Expenditure program.

#### **INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS**

- The Water Fund cash balance increased by \$123,876 to \$342,565. This balance increase was generated by increased rates of water to consumers and cost control of expenses.
- 
- The Sewer Fund cash balance increased by \$377,550 to \$1,933,363. This balance increase was generated by (a) cost control and purchase efficiency, and (b) a transfer from the General Fund to provide for future major capital projects. & (c) increased rates to the consumers..

#### **BUDGETARY HIGHLIGHTS**

Over the course of the year, the City amended its budget once.. The amendment was approved in March 2008 and resulted in an increase in both disbursements and receipts.. The City had sufficient cash balances to absorb these additional costs.

#### **DEBT ADMINISTRATION**

At June 30, 2009 the City had no debt.

#### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Polk City's elected and appointed officials and citizens will consider many factors when setting the fiscal year 2010 budget, tax rates, and fees that will be charged for various City activities. A major consideration will be the planning and timing of necessary and mandated improvements and upgrades to the City's water and sewer treatment plants.

#### **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Colin Adams, Finance Director, City of Polk City. 112 3<sup>rd</sup> Street, Polk City, Iowa.

City of Polk City, Iowa  
Statement of Activities and Net Assets – Cash Basis  
As of and for the year ended June 30, 2009

Functions/Programs	Program Receipts			
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental Activities				
Public safety	\$ 825,688	\$ 218,701	\$ 17,655	\$ -
Public works	611,167	146	238,289	-
Culture and recreation	340,042	29,334	14,058	-
Community and economic development	154,600	-	-	-
General government	572,733	95,617	10,319	-
Capital projects	857,113	-	-	-
Total governmental activities	3,361,343	343,798	280,321	-
Business type activities				
Water	269,743	393,619	-	-
Sewer	235,243	362,793	-	-
Total business type activities	504,986	756,412	-	-
Total	\$ 3,866,329	\$ 1,100,210	\$ 280,321	\$ -

General Receipts

Property tax levied for  
    General purposes  
    Tax increment financing  
Local option sales tax  
Unrestricted interest on investments  
Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash basis net assets

Restricted (deficit)

    Streets  
    Urban renewal purposes  
    Capital Projects

Unrestricted

Total cash basis net assets

*There were no reconciling items between the Governmental and Fiduciary Fund Statements of Cash Receipts, Disbursements and Changes in Cash Balances and the above Statement. See notes to financial statements.*

Net (Disbursements) Receipts and Changes in Cash Basis  
Net Assets

Governmental Activities	Business Type Activities	Total
\$ (589,332)	\$ -	\$ (589,332)
(372,732)	-	(372,732)
(296,650)	-	(296,650)
(154,600)	-	(154,600)
(466,797)	-	(466,797)
(857,113)	-	(857,113)
(2,737,224)	-	(2,737,224)
-	123,876	123,876
-	127,550	127,550
-	251,426	251,426
\$ (2,737,224)	\$ 251,426	\$ (2,485,798)

\$ 716,363	\$ -	\$ 716,363
165,570	-	165,570
1,839,576	-	1,839,576
32,067	-	32,067
48,518	-	48,518
(250,000)	250,000	-
2,552,094	250,000	2,802,094
(185,130)	501,426	316,296
2,081,588	1,774,502	3,856,090
\$ 1,896,458	\$ 2,275,928	\$ 4,172,386

\$ 85,493	\$ -	\$ 85,493
401,806	-	401,806
82,198	-	82,198
1,326,961	2,275,928	3,602,889
\$ 1,896,458	\$ 2,275,928	\$ 4,172,386

City of Polk City, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Governmental Funds  
As of and for the year ended June 30, 2009

	General	Road Use Tax	Capital Project	Urban Renewal Tax Increment - L.M.I	Total
<b>Receipts</b>					
Property Taxes	\$ 716,363	\$ -	\$ -	\$ -	\$ 716,363
Tax Increment Financing Collections	-	-	-	165,570	165,570
Other City Tax- Local Option Sales Tax	1,839,576	-	-	-	1,839,576
Licenses and Permits	64,846	-	-	-	64,846
Use of Money and Property	112,249	-	-	4,681	116,930
Intergovernmental	56,517	238,289	-	-	294,806
Charges for Services	156,631	-	-	-	156,631
Miscellaneous	41,491	-	-	-	41,491
<b>Total Receipts</b>	<b>2,987,673</b>	<b>238,289</b>	<b>-</b>	<b>170,251</b>	<b>3,396,213</b>
<b>Disbursements</b>					
Operating					
Public Safety	825,688	-	-	-	825,688
Public Works	148,684	462,483	-	-	611,167
Culture and Recreation	340,042	-	-	-	340,042
Community and Economic Development	113,838	-	-	40,762	154,600
General Government	572,733	-	-	-	572,733
Capital Projects	-	-	857,113	-	857,113
<b>Total Disbursements</b>	<b>2,000,985</b>	<b>462,483</b>	<b>857,113</b>	<b>40,762</b>	<b>3,361,343</b>
<b>Excess (deficiency) of receipts over (under) disbursements</b>	<b>986,688</b>	<b>(224,194)</b>	<b>(857,113)</b>	<b>129,489</b>	<b>34,870</b>
<b>Other financing sources (uses)</b>					
Sale of Capital Assets	-	30,000	-	-	30,000
Operating transfers in	-	425,000	202,000	-	627,000
Operating transfers out	(877,000)	-	-	-	(877,000)
<b>Total other financing sources (uses)</b>	<b>(877,000)</b>	<b>455,000</b>	<b>202,000</b>	<b>-</b>	<b>(220,000)</b>
<b>Net change in cash balances</b>	<b>109,688</b>	<b>230,806</b>	<b>(655,113)</b>	<b>129,489</b>	<b>(185,130)</b>
<b>Cash balance - beginning of year</b>	<b>1,217,273</b>	<b>(145,313)</b>	<b>737,311</b>	<b>272,317</b>	<b>2,081,588</b>
<b>Cash balance - end of year</b>	<b>\$ 1,326,961</b>	<b>\$ 85,493</b>	<b>\$ 82,198</b>	<b>\$ 401,806</b>	<b>\$ 1,896,458</b>
<b>Cash basis fund balances</b>					
Unreserved					
General fund	\$ 1,326,961	\$ -	\$ -	\$ -	\$ 1,326,961
Special revenue funds	-	85,493	-	401,806	487,299
Capital projects fund	-	-	82,198	-	82,198
<b>Total cash basis fund balances</b>	<b>\$ 1,326,961</b>	<b>\$ 85,493</b>	<b>\$ 82,198</b>	<b>\$ 401,806</b>	<b>\$ 1,896,458</b>

The accompanying notes to financial statements are an integral part of this statement.

City of Polk City, Iowa  
Statement of Cash Receipts, Disbursements and Changes in Cash Balances  
Proprietary Funds  
As of and for the year ended June 30, 2009

	Water	Sewer	Total
Operating receipts			
Use of money and property	\$ 1,809	\$ 50,299	\$ 52,108
Charges for service	391,810	312,494	704,304
Total operating receipts	393,619	362,793	756,412
Operating disbursements			
Business type activities	269,743	235,243	504,986
Excess of operating receipts over operating disbursements	123,876	127,550	251,426
Non-operating receipts			
Transfers-in	-	250,000	250,000
Total other financing sources (uses)	-	250,000	250,000
Net change in cash balances	123,876	377,550	501,426
Cash balances - beginning of year	218,689	1,555,813	1,774,502
Cash balances - end of year	\$ 342,565	\$ 1,933,363	\$ 2,275,928
Cash basis fund balances - Unreserved	\$ 342,565	\$ 1,933,363	\$ 2,275,928

*See notes to financial statements.*

City of Polk City, Iowa  
Notes to Financial Statements  
June 30, 2009

1/ Summary of Significant Accounting Policies

The City of Polk City is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1875 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services.

A. Reporting Entity

For financial reporting purposes, the City of Polk City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

In 1998, the City joined the Des Moines Area Metropolitan Planning Organization to plan and coordinate the transportation activities for the metropolitan area. The Organization's Board consists of a representative from each governing body. The members make contributions toward the budget of the organization. During the year ended June 30, 2009, the City paid \$1,723 to the organization.

In 1969, the City, in conjunction with seventeen other cities, created the Metro Waste Authority. The Authority board consists of an elected representative of the governing body of each participating governmental jurisdiction. The purpose of this joint public body is to provide for the economic disposal of all solid waste produced or generated by the jurisdictions and private contractors. During the year ended June 30, 2009, the City paid the Metro Waste Authority \$34,296 for the Curb It Program.

The City, in conjunction with eighteen other cities, created the Polk County Emergency Management Commission using a 28E agreement. The commission provides direction for planning, coordinating, training, and support of emergency management services. During the year ended June 30, 2009, the City paid \$718 to the commission.

In addition, the City participates in other jointly governed organizations that provide services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Joint County/Municipal Disaster Services and Emergency Planning Administration for Polk County, the Emergency Communications Services (911) Board and Central Iowa Regional Drinking Water Commission and League of Cities.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

B. Basis of Presentation (continued)

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

The Capital Projects Fund is used to account for all resources used in the acquisition of capital facilities.

The Road Use Tax Fund is utilized to account for road construction and maintenance.

The Urban Renewal Tax Increment-LMI Fund is utilized to account for the tax receipts to be used for family housing assistance.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.



### C. Measurement Focus and Basis of Accounting

The City of Polk City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the community and economic development function.

## 2/ Cash and Pooled Investments

The City's deposits, at June 30, 2009, were entirely covered by Federal depository insurance, or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$360,116 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in instruments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk – The City's investment in the Iowa Public Agency Investment Trust is unrated.

## 3/ Tax Increment Financing

The Urban Renewal Tax Increment – LMI fund contains the division of tax receipts as provided for in Chapter 403.19 of the Code of Iowa for the purpose of providing or aiding public improvements and residential development. That Chapter and Chapter 403.22 provides that the City must include assistance to low and moderate income family housing. In February 2008, the City adopted an affordable housing plan to be implemented from 2009 to 2012.

#### 4/ Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 4.10% of their annual covered salary and the City is required to contribute 6.35% of annual covered payroll. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2009, 2008, and 2007, were \$59,181, \$53,012, and \$48,687, respectively, which are equal to the required contributions for each year.

#### 5/ Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences for vacation hours payable to employees at June 30, 2009, primarily relating to the General Fund, is \$40,000.

The liability has been computed based on rates of pay in effect at June 30, 2009.

#### 6/ Risk Management

- a) The City is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk sharing pool whose 577 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained to equal 200 percent of the total current member's basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City of Polk City's annual contributions to the Pool for the year ended June 30, 2009 were \$45,258.

#### 6/ Risk Management (continued)

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim and \$10,000,000 in aggregate per year. For members requiring specific coverage from \$3,000,000 to \$10,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$100,000 each occurrence, each location, with excess coverage reinsured on an individual-member basis.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the members' risk-sharing certificate or in the event a series of casualty claims exhausts total member's equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2009, settled claims have not exceeded the risk pool or reinsurance company coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its capital contributions; however, the refund is reduced by an amount equal to the annual operating contribution, which the withdrawing member would have made for the one-year period following withdrawal.

- b) The City is a member of the Iowa Municipalities Workers' Compensation Association (IMWCA) which provides workers' compensation coverage to its members. The Association is governed by a board of directors elected by representatives of the governing bodies of each participating governmental jurisdictions. The City has executed a Worker's Compensation coverage agreement with the Association which extends through June 30, 2009 and has authorized the Association to issue general obligation bonds to provide funds with which to pay claims. During the year ended June 30, 2009, the City paid worker's compensation insurance premiums of \$27,635 to the Association.

#### 7/ Commitment

The City entered into contracts for the construction of various public improvements. At June 30, 2009, the remaining commitment on these contracts were \$288,363.

#### 8/ Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts and disclosure of liabilities, contingent liabilities, and commitments at the date of the financial statements, and the classification of receipts and disbursements during the reporting period. Actual results could differ from the estimates that were used.

#### 9/ Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2009 is as follows:

	Transfer To			Total
	Road Use Tax	Capital Projects	Sewer	
Transfer from General	\$ 425,000	\$ 202,000	\$ 250,000	\$ 877,000
	<u>\$ 425,000</u>	<u>\$ 202,000</u>	<u>\$ 250,000</u>	<u>\$ 877,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

#### 10/ Water Rates

In 2006, the City paid Des Moines Water Works \$665,000 for the right to pay lower water rates over forty years, based on a 350,000 gallon per day consumption. The rates will be based on annual cost studies conducted by the Des Moines Water Works. Initially such rates are \$.90 per 1,000 gallons.

#### 11/ Interfund Loan

During the year ended June 30, 2006, the General Fund loaned \$665,000 with no interest to the Water Fund. At June 30, 2009, the loan balance totaled \$315,000.

City of Polk City, Iowa  
 Budgetary Comparison Schedule of Receipts, Disbursements, and Changes in Balances  
 Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds  
 Required Supplementary Information  
 Year ended June 30, 2009

	Governmental Funds Actual	Enterprise Funds Actual
Receipts		
Property Taxes	\$ 716,363	\$ -
Tax increment financing collections	165,570	-
Other city tax	1,839,576	-
Licenses and permits	64,846	-
Use of money and property	116,930	52,108
Intergovernmental	294,806	-
Special Assessments	-	-
Charges for Service	156,631	704,304
Miscellaneous	41,491	-
Total Receipts	<u>3,396,213</u>	<u>756,412</u>
Disbursements		
Public safety	825,688	-
Public works	611,167	-
Health and social services	-	-
Culture and recreation	340,042	-
Community and economic development	154,600	-
General government	572,733	-
Capital projects	857,113	-
Business type activities	-	504,986
Total Disbursements	<u>3,361,343</u>	<u>504,986</u>
Excess (deficit) of receipts over disbursements	<u>34,870</u>	<u>251,426</u>
Other financing sources, net	<u>(220,000)</u>	<u>250,000</u>
Excess (deficit) of receipts and other sources over disbursements	(185,130)	501,426
Balance - beginning of year	2,081,588	1,774,502
Balance - end of year	<u>\$ 1,896,458</u>	<u>\$ 2,275,928</u>

*See accompanying independent auditors' report.*

		Budgeted Amounts		
Net		Original	Final	Final to Net Variance
\$	716,363	\$ 693,790	\$ 693,790	\$ 22,573
	165,570	-	-	165,570
	1,839,576	1,894,939	1,685,960	153,616
	64,846	107,300	65,950	(1,104)
	169,038	228,500	163,100	5,938
	294,806	380,900	261,100	33,706
	-	9,000	-	-
	860,935	925,400	833,425	27,510
	41,491	45,500	189,565	(148,074)
	4,152,625	4,285,329	3,892,890	259,735
	825,688	907,248	871,808	46,120
	611,167	535,110	627,730	16,563
	-	7,500	7,500	7,500
	340,042	300,585	380,555	40,513
	154,600	175,000	36,000	(118,600)
	572,733	499,385	604,470	31,737
	857,113	1,120,000	1,188,900	331,787
	504,986	839,075	645,810	140,824
	3,866,329	4,383,903	4,362,773	496,444
	286,296	(98,574)	(469,883)	756,179
	30,000	-	30,000	-
	316,296	(98,574)	(439,883)	(756,179)
	3,856,090	2,364,405	3,856,090	-
\$	4,172,386	\$ 2,265,831	\$ 3,386,207	\$ (756,179)

City of Polk City, Iowa  
Notes to Required Supplementary Information – Budgetary Reporting  
June 30, 2009

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Permanent Funds and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment decreased budgeted disbursements by \$21,130. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2009, disbursements exceeded the amounts budgeted in the Community and Economic Development function.

City of Polk City, Iowa  
Schedule of Receipts by Source and Disbursements by Function  
All Government Funds  
For the Last Five Years

	2009	2008	2007	2006	2005
<b>Receipts</b>					
Property taxes	\$ 716,363	\$ 672,673	\$ 660,567	\$ 652,778	\$ 541,190
Tax increment financing collections	165,570	139,326	89,476	38,898	1,019
Other city tax	1,839,576	1,837,249	1,618,377	886,977	1,161,315
Licenses and permits	64,846	120,258	145,951	336,109	84,345
Use of money and property	116,930	194,813	109,141	163,269	142,737
Intergovernmental	294,806	355,754	1,095,037	301,478	332,843
Special Assessments	-	-	1,674,518	-	-
Charges for service	156,631	105,246	92,250	97,588	148,896
Miscellaneous	71,491	81,185	52,628	78,644	377,689
<b>Total</b>	<b>\$ 3,426,213</b>	<b>\$ 3,506,504</b>	<b>\$ 5,537,945</b>	<b>\$ 2,555,741</b>	<b>\$ 2,790,034</b>
<b>Disbursements</b>					
<b>Operating</b>					
Public safety	\$ 825,688	\$ 1,197,167	\$ 769,747	\$ 641,447	\$ 695,097
Public works	611,167	311,412	410,598	542,564	376,903
Health and human services	-	7,500	-	12,081	6,519
Culture and recreation	340,042	352,076	389,241	276,196	296,841
Community and economic development	154,600	22,500	10,000	41,466	15,436
General government	572,733	444,456	439,144	792,342	342,946
Debt service	-	-	-	-	375,000
Capital projects	857,113	1,184,008	2,224,242	1,364,368	2,306,711
<b>Total</b>	<b>\$ 3,361,343</b>	<b>\$ 3,519,119</b>	<b>\$ 4,242,972</b>	<b>\$ 3,670,464</b>	<b>\$ 4,415,453</b>

See accompanying independent auditors' report.



# POLLARD AND COMPANY P.C.

## CERTIFIED PUBLIC ACCOUNTANTS

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CERTIFIED PUBLIC ACCOUNTANTS

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Honorable Mayor and  
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, and each major fund of the City of Polk City, Iowa as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon as dated below. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Polk City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we considered to be a significant deficiency and we considered to be a material weakness.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned function, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control. We consider the deficiency in internal control described in Part I of the accompanying Schedule of Findings to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiency described above, we believe item 09-I-A is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Polk City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2009 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Polk City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusion on the City's responses, we did not audit the City's responses and, accordingly, we express no opinion on them.

This report, a matter of public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Polk City and other parties to whom the City of Polk City may report. This report is not intended to be and should not be used by any one other than these specified parties.

July 31, 2009

*Polk and Company P.C.*

City of Polk City, Iowa  
Schedule of Findings  
Year Ended June 30, 2009

PART I Findings Related to the Financial Statements

Reportable Conditions

09-I-A

Segregation of Duties

One important aspect of internal accounting control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that generally the finance officer has control over each of the following areas:

- (1) Cash receipts, journalizing and posting.
- (2) Disbursements, check writing, journalizing and posting.

Recommendation

We realize that with a limited number of office employees, segregation of duties is difficult. The City should continue to review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response

We will continue to review the internal control procedures and segregate duties to the extent possible with existing personnel.

Conclusion

Response acknowledged. The City should segregate duties to the extent possible. Administrative personnel should provide additional control through review of financial transactions and reports.

PART II Other Findings Related to Statutory Reporting

09-II-A

Certified Budget

Disbursements during the year ended June 30, 2009 exceeded the amounts budgeted in the Community and Economic Development function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation

The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response

The budget will be amended in the future, if applicable.

Conclusion

Response accepted.

09-II-B

Questionable Disbursements

We noted no disbursements for parties, banquets or other entertainment expenses that do not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

09-II-C

Travel Expense

No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

09-II-D

Business Transactions

There were no business transactions between the City and City officials or employees during the year.

09-II-E

Bond Coverage

Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

09-II-F

Council Minutes

No transactions were found that we believe should have been approved in the Council minutes but were not.

09-II-G

Deposits and Investments

Deposits and investments were in compliance with Chapter 12B and 12C of the Code of Iowa and the City's investment policy.

09-II-H

Retention of Electronic Records

As required by Chapter 554D.114(5) of the Code of Iowa, if a bank retains the City's checks in electronic format, the check images received by the City should display both the front and back of the checks.

Recommendation

The City should contact the bank to determine the bank's capabilities to comply with the law.

Response

In July 2009, we contacted the bank and the necessary change will be made.

Conclusion

Response accepted.

09-II-I

Time Cards

Time cards are not approved by supervisors.

Recommendation

All time cards should be approved by the employee's supervisor.

Response

We will implement this procedure.

Conclusion

Response accepted.

09-II-I

Publication of Salaries

The annual salaries were not published in accordance with the section 372.13 of the Code of Iowa.

Recommendation

The annual salaries should be published as required.

Response

We published the salaries on July 24, 2009.

Conclusion

Response accepted.